GENDIS INC.

Annual Report
For the year ended January 29, 2005

COMPANY PROFILE

The evolution of Gendis Inc. dates back to 1939 with the founding of General Distributors, an importing distribution firm. The company was incorporated as General Distributors of Canada Ltd. in November 1962, and was subsequently re-named Gendis Inc. in 1983.

Through most of its recent history the Company had been principally involved in the retail merchandising industry. On December 16, 2004, the Company sold its investment in Saan Stores Ltd. and consequently exited the retail general merchandising industry.

Gendis is currently active in investment management, and in real estate leasing and management through its division, Gendis Realty.

TABLE OF CONTENTS

ANNUAL MEETING OF SHAREHOLDERS

The annual meeting of shareholders will be held Friday, June 3, 2005 at 11:00 a.m. CDT at the offices of Gendis Inc., 1370 Sony Place, Winnipeg, Manitoba

CHAIRMAN'S LETTER TO THE SHAREHOLDERS

Being ever the optimist, my expectations for Gendis' performance for fiscal 2004 did not develop as had been expected or as had been forecast.

The SAAN Store operation did not perform well the previous fiscal year. The retail business early in 2003 was beset with the SARS scare. It was followed by the mad cow fiasco. The next disaster was the softwood lumber export ban to the United States. All of these events coming one after the other resulted in a loss of $8.7 million for the SAAN division.

We expected a much better performance in 2004 for the SAAN operation. Unfortunately this did not happen. The new stores located in the power centres did not perform as well as predicted. It was decided that we had no option but to put up SAAN Stores Ltd. for sale. Pending a sale, it became necessary to fund SAAN with over $10 million injected by Gendis in the last year. The result was the sale to SAAN Acquisition Corp. on December 16, 2004.

What does the future hold for Gendis? At the present time, Gendis is debt free with valuable assets which ensure the future 'go forward' of the company. Primarily, its main assets are cash and Fort Chicago Energy Limited Partnership equity and some real estate including the Winnipeg Head Office building which is a signature building. This property, containing almost 400,000 square feet situated on 20 acres, is well located and there has been great interest expressed in either leasing or sale.

The balance of the year will give management the opportunity to study the best plans for the future of Gendis Inc.

On behalf of our Board of Directors and the staff of Gendis, we thank you for your patience.

Albert D. Cohen
Chairman, President and Chief Executive Officer

Management's Discussion & Analysis
For the year ended January 29, 2005

NOTICE *– Presentation and Review of the Management's Discussion & Analysis*

This annual and fourth quarter Management's Discussion and Analysis should be read in conjunction with the audited annual financial statements for the year ended January 29, 2005. Financial information presented in this Management's Discussion and Analysis have been derived from financial statements denominated in Canadian dollars that are prepared in accordance with accounting principles generally accepted in Canada and follow the same accounting policies and methods of application as the audited annual financial statements at January 29, 2005. This Management's Discussion & Analysis has been reviewed and approved by the Board of Directors of Gendis Inc. ('the Company') on April 14, 2005.

Annual Information Form and other additional information

The Company's Annual Information Form and other additional information are available on SEDAR at www.sedar.com.

NOTICE *– Forward-Looking Information*

This Management's Discussion and Analysis contain forward-looking statements. These statements are based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions and anticipated future developments. Forward-looking statements should not be read as guarantees of future performance and will not necessarily be accurate indications of whether such performance or results will be achieved. There are risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the forward-looking statements. Factors that could cause such differences include general risks relating to the retail industry and the matters described under "Risks and Uncertainties".

Development of the Company's Strategic Direction for its Retail segment

In the 1st quarter of the year, the Company engaged retail consultants to provide an independent assessment of the strategic initiatives of its Retail segment, Saan Stores Ltd. ('Saan'). In the 2nd quarter of the year, the Company decided to initiate the solicitation of offers from prospective purchasers for its Retail segment while assessing the costs and resources required for strategic alternatives to return the business to profitability. Also in the 2nd quarter of the year, the Company concluded that it was not in the best interest of its shareholders to commit additional financial and other resources beyond the $10-million advanced to counter the significant deterioration of cash flows from the operations of the Retail segment. Accordingly, the Company decided to sell the Retail segment, with a purchaser assuming the responsibility of sponsoring the Company's Defined Benefit Pension Plan. The membership of the Defined Benefit Pension Plan is substantially comprised of active employees and retired employees of the Company's current and previous retail segments. In the 2nd quarter, the Company commenced negotiating with several prospective purchasers and closed the sale transaction for the Retail segment along with the transfer of the sponsorship of the Pension Plan on December 16, 2004.

Discontinued Operations - Retail segment

Revenue in the 4th quarter up to the sale date declined 10% from the comparable period last year. Sales on a same store basis declined 17%. For the year to the sale date, revenue declined 10% from last year. Sales on a same store basis declined 13%. The net loss from operations for the 4th quarter to the sale date was $0.9-million compared to earnings of $0.9-million for the 4th quarter last year. On a year to date basis to the sale date, the net loss was $16.5-million compared to a loss of $6.4-million for the year last year. The increase in the loss in the 4th quarter and for the year is primarily due to reduced gross profit resulting from sales declines. Competition has increasingly encroached on Saan's traditional markets in rural and small town Canada with the resultant change in consumer shopping patterns. The lack of success from Saan's foray into the "power centre" concept in larger centres to regain market share was disappointing.

Borrowings under the credit facility with Congress increased $6.7-million from year end to the sale date. In addition, the Corporate & Realty segment has provided interest-free inter-segment advances of $10-million in order to maintain sufficient availability under covenant requirements on the Congress credit facility. The increase in total borrowings by the Retail segment was incurred to finance losses of $11.1-million from operation, capital expenditures in the year and for capital lease payments.

Corporate & Realty segment

At year end, the Company owns six real estate properties that are solely leased as retail outlets to the Company's former Retail segment, Saan, two real estate properties where Saan is a tenant with other commercial tenants and a head office & distribution centre leased to Saan. Revenue from continuing operations from the rental of real estate increased primarily as a consequence of rentals subsequent to the sale date from the former Retail segment are classified as revenue from an external party. This revenue is not eliminated on consolidation as would be required for inter-segment revenue prior to the sale date. For the year up to the sale date, $1.8-million in revenue from rent, recoverable costs and interest income from Saan were eliminated from the Corporate & Realty operations, compared to $2.2-million for the full year last year. The elimination of inter-segment revenue has the effect of a reducing reported profit in the Corporate & Realty segment and reducing the reported loss in the Retail segment.

For the fiscal year ending January 28, 2006, Saan has indicated that it will repudiate the lease of the head office & distribution centre in Winnipeg, MB. This has the potential of reducing annualized revenue from rent and recoverable costs by $1.3-million until another tenant is secured or the property sold. The Company has received numerous expressions of interest for either of these alternatives. The Company is also evaluating alternatives for re-developing the site for multiple tenants for revenue maximization.

In the 4th quarter, investment income declined $0.3-million over the comparable prior year quarter due to a year-to-date adjustment to achieve the reported annual share of earnings of Fort Chicago Energy Partners L.P. ('Fort Chicago'). For the year, investment income declined $0.1-million, primarily from reduced interest income on investments in the short-term debt market.

In the 4th quarter, the Company recorded restructuring credits of $0.8-million representing recoveries from the Trustee of a former bankrupt subsidiary of the Company, a reduction to the provision for related expenses and settlements with landlords on lease terminations. In the prior year, the Company recorded $0.3-million of restructuring credits. This matter is substantially concluded and further credits or costs are not expected in the future.

In the 4th quarter, The Company wrote down the carrying value of two properties by $0.8-million. The properties were written down to a fair market value based on the greater of applying a capitalization rate to the expected annual cash flow from the properties and the expected sale value, net of selling costs, if the property were vacant. The capitalization rate selected was typical for properties of a similar type and location.

In the 3rd quarter of this year, the Company concluded the sale of a parcel of five properties to Manitoba Hydro. One of the properties had been owned since the early 1960's, two of the properties since the late 1980's and two properties were purchased over the last two years. The net proceeds of the sale were $14.0-million after transaction costs, generating a gain of $6.7-million after applicable income taxes. Transaction costs included costs to compensate tenants for lease termination and relocation costs, legal fees, and the cost of securing additional property, including municipal back lanes to assemble the site to the purchaser's specifications.

During the year ended January 29, 2005, the Corporation acquired an investment in Opti Canada Inc. ('Opti') for $1.0-million and increased its investment in Fort Chicago by purchasing additional units for $2.1-million.

During the year ended January 31, 2004, the Corporation incurred a finance cost of $2.9-million in the settlement of an option held by a previous lender to the Corporation. The previous lender gave notice of its intent to exercise its option to acquire from the Corporation 1.0-million units of Fort Chicago at $6.00 per unit. The Corporation

elected to retain the 1.0-million units and settled the option by paying the difference between the fair market value of the units and the option price.

At year end, the Company's investments in Fort Chicago and Opti have a fair market value of approximately $29.1-million, which is $10.3-million in excess of the carrying value. This represents an unrealized appreciation of approximately $0.67 per share. The Company's investments appreciated in value by $2.3-million in the 4th quarter, $3.3-million for the year, representing unrealized earnings of $0.15 and $0.22 per share respectively.

Interest expense

Interest expense on continuing operations was incurred for short-term borrowings on a bank loan at bank prime rates. In the 2nd quarter last year, the Company incurred a financing cost of $2.9-million on the settlement of an option held by a previous lender to the Company.

Income tax expense

Income taxes for the current year primarily represents $1,200,000 of future tax asset recorded in the 4th quarter of the year and Large Corporation's Tax of $89,000, represented as follows:

in thousands of dollars	Continuing Operations	Discontinued Realty	Discontinued Retail	Total
Future tax recoverable (expense)	366	(1,428)	2,262	1,200
Large corporations tax expense	24	—	65	89

There is a potential of $251,000 of future tax assets that has not been recognized, as the Corporation is not reasonably assured of recovery.

Capital Requirements and Liquidity

During the year, the Corporate & Realty segment had utilized $8.5-million of its $10-million credit availability with its banker to provide $10-million of advances to Saan. The $8.5-million loan was repaid in the 4th quarter from the net proceeds of $14.0-million received in the 4th quarter on the sale of real estate properties. The credit line was terminated upon repayment. At year end, the Corporate & Realty segment has $3.2-million in cash and short term investments. The Company also has $29-million, at a quoted market basis, in highly marketable investments in Fort Chicago and Opti.

Financing of Saan was primarily managed through a revolving credit facility with Congress Financial Corporation, an asset backed lender. The term of the facility would have expired March 2005. This credit facility would ordinarily be considered sufficient to fulfill Saan's financing needs during peak buying periods. However, due to significant losses this year that were in excess of plan, the Corporate & Realty segment advanced $10-million to Saan in the year. At the sale date, intersegment loan and intersegment receivables of $15.6-million were included in the sale of the Retail Segment.

Contractual Obligations

At January 29, 2005, contractual obligations of the continuing operations are summarized as follows:

	Total	Payments due by period ($000's) less than 1 year	1-3 years	4-5 years	after 5 years
Sub-leases [1]	3,357	1,517	1,532	308	—
Operating leases	29	19	10	—	—
Other obligations	103	37	13	10	43
Total obligations	3,489	1,573	1,555	318	43

[1] The Company's subsidiary, Gendis Realty Inc. ('GRI'), has six agreements to sub-lease premises to Saan Stores Ltd., the Company's former subsidiary. GRI retains ultimate responsibility to the landlord for the payment of amounts under the lease agreements should the sub-lessee fail to pay. Included in the terms of the agreement for the sale of Saan, GRI has conceded the right for Saan to renew the leases at each expiry term, subject to an acceptable indemnity to GRI. The Company considers these leases to have an intrinsic value, due to the location, low rental rates and lengthy renewal options, that GRI may be able to realize by securing another tenant should Saan decide to exit the location.

Selected Annual Information for the Last Three Years

(in thousands of dollars - except per share)	January 29, 2005	January 31, 2004	January 25, 2003
Revenue – continuing operations	1,981	1,956	2,286
Net earnings (loss) before discontinued operations	(665)	(2,763)	1,717
Earnings (loss) per share before discontinued operations – basic and diluted	(0.04)	(0.18)	0.11
Net earnings (loss)	(44,892)	(9,017)	352
Earnings (loss) per share – basic and diluted	(2.93)	(0.59)	0.02
Total assets	65,710	156,187	168,136
Long-term liabilities	—	25,853	24,868
Dividends per share	—	—	—

Summary of Quarterly Results

The following is a summary of information for the eight most recently completed quarters:

Quarters Ended (in thousands of dollars except per share)	Total Revenue	Net Earnings (Loss)	Net Earnings (Loss) per Share Basic and Diluted
January 29, 2005			
Continuing operations	419	(331)	(0.02)
Discontinued operations			
Operations	43,901	(899)	(0.06)
Gain (loss) on the sale of real estate assets		(1,485)	(0.10)
Gain (loss) on sale of the Retail segment		3,573	0.23
Total	44,320	858	0.05

Quarters Ended (in thousands of dollars except per share)	Total Revenue	Net Earnings (Loss)	Net Earnings (Loss) per Share Basic and Diluted
January 31, 2004			
Continuing operations	576	4	—
Discontinued operations	89,238	871	0.06
Total	89,814	875	0.06
October 30, 2004			
Continuing operations	525	(82)	(0.01)
Discontinued operations			
Operations	72,180	(3,103)	(0.20)
Gain on the sale of real estate assets		8,164	0.53
Provision for impairment of net assets of the Retail segment to fair value		(38,049)	(2.48)
Total	72,705	(33,070)	(2.16)
October 25, 2003			
Continuing operations	468	(13)	—
Discontinued operations	77,168	18	—
Total	77,636	5	—
July 31, 2004			
Continuing operations	527	(69)	—
Discontinued operations	71,313	(2,319)	(0.16)
Total	71,840	(2,388)	(0.16)
July 26, 2003			
Continuing operations	455	(2,965)	(0.19)
Discontinued operations	83,623	1,104	0.07
Total	84,078	(1,861)	(0.12)
May 1, 2004			
Continuing operations	510	(183)	(0.01)
Discontinued operations	56,743	(10,109)	(0.66)
Total	57,253	(10,292)	(0.67)
April 26, 2003			
Continuing operations	457	211	0.01
Discontinued operations	61,556	(8,247)	(0.54)
Total	62,013	(8,036)	(0.53)

Outstanding Share Data

At April 14, 2005 there were 15,316,000 common shares outstanding with a stated capital of $16,100,000. The Company did not purchase any common shares for cancellation under its Normal Course Issuer Bid during the year. The Normal Course Issuer Bid expired December 17, 2004.

Critical Accounting estimates

Inventory and cost of sales are the most significant components of the balance sheet and statement of earnings of the discontinued Retail segment. Merchandise inventories are carried at the lower of cost and net realizable value as determined by the retail inventory method of accounting, an averaging methodology. Under the retail

inventory method, merchandise is categorized according to similar characteristics. Retail values are converted to a cost basis by applying average cumulative cost factors to each merchandise category. Cost factors represent the average cumulative cost-to-retail ratio for each merchandise category based on beginning inventory, and purchases and transportation costs for the period. The valuation of merchandise inventories requires significant management judgment in setting the original retail value, recognizing that value may have declined to require a reduction in the retail value, known as a markdown, and estimating the shrinkage that has occurred between the annual physical inventory count conducted at the end of a fiscal year and the interim reporting period end date. Judgments are based on assumptions about anticipated demand due to customer preferences. A decision to permanently mark down merchandise results in a gross profit reduction based on quantities on hand and is recognized in the period that the markdown is taken. Shrinkage is estimated as a percentage of sales for the period from the last physical inventory count date to the interim period end date. Shrinkage estimates are based on historical experience.

Income taxes are determined using the asset and liability method of accounting, which recognizes future tax assets and liabilities based on the differences between the accounting and the tax basis of assets and liabilities. Future taxes are measured at the income tax rates expected to apply when the asset is realized or when the liability settled. Assumptions are required to determine the provision for income taxes, including the resolution of tax disputes. The Company currently has significant differences resulting from non-capital loss carry forwards that have the potential to reduce taxable income in the future. A future tax asset has been recognized by the Company as Management has determined that it is more likely than not that a portion of the non-capital loss carry forwards will be realized. Management exercises judgment in considering future earnings projections. Accordingly, the Company would recognize future tax assets as taxable earnings are achieved in the future.

The Company is in dispute with the Canada Revenue Agency concerning income tax on the sale of shares of an investment in fiscal 1996, which was assessed in fiscal 2002. The Corporation has filed a notice of objection with the Canada Revenue Agency, has made application to the Courts on certain jurisdictional matters and believes that it has substantial arguments to support its original filing position. On July 27, 2004, the Manitoba Court of Queen's Bench decided that the taxing authority had the power to issue a tax assessment concerning income tax on the transaction. The Corporation has appealed the decision to the Manitoba Court of Appeal. Management has assessed the merits of its position in consultation with legal counsel. It is Management's judgment that the Company will ultimately prevail in this matter.

Determination of the Company's pension asset and expense are dependent on the assumptions used in calculating these amounts. The assumptions are determined by Management and are reviewed by Management annually and by its actuary tri-annually. These assumptions include the discount rate, the rate of compensation increase and the expected long-term rate of return on pension plan assets. Actuarial assumptions for mortality and employee turnover rates are based on standard tables, adjusted as necessary to reflect the Company's experience in prior years and reflect actual provisions of the pension plan. Expected trends in rates used are considered in determining the assumptions. Differences between actual experience and the assumptions will result in increases or decreases in the Company's pension expense in future years.

Recently Issued Accounting Pronouncements

In the 3rd quarter of the current year, the Company adopted the guidance of the Emerging Issues Committee of the CICA abstract on the accounting for certain consideration received from a vendor. The abstract requires that such amounts be treated as a reduction to the cost of inventory unless the cost is a reimbursement of another cost. The adoption was applied retroactively and resulted in a decrease in earnings for the current quarter and the comparative prior year quarter of $0.01 per share, respectively. The decrease to earnings on a year-to-date basis was $0.02 per share for the current period and $0.01 per share for the prior year comparative period.

RESPONSIBILITY FOR FINANCIAL REPORTING

Management of the Corporation is responsible for the consolidated financial statements and all information contained in the Annual Report. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada (GAAP). Significant accounting policies are described in Note 2 to the consolidated financial statements. Management exercised its best judgment in selecting appropriate accounting policies and providing estimates as part of the assurance that transactions are part of the reporting process. Management maintains a system of accounting and administrative controls that provide reasonable assurance that transactions are appropriately authorized, assets safeguarded and financial records maintained, in order to provide relevant, reliable and timely financial information. Management considers financial information presented in the Annual Report to be consistent with the consolidated financial statements.

The Company's Board of Directors has appointed an Audit Committee consisting of three directors who are not executive officers or employees of the Corporation. The Board of Directors has delegated responsibility for the oversight of the financial reporting process to the Audit Committee. The Audit Committee meets periodically with management and the independent auditors to review the performance of their respective responsibilities and to discuss accounting policy and financial reporting matters. The Audit Committee assesses the audit plan of the independent auditors, the audit report and the results of the audit findings. The Audit Committee provides unrestricted access to the independent auditors to discuss audit and related findings on the integrity of the Corporation's financial reporting process, and the adequacy of the system of accounting and administrative controls. The Audit Committee provides a recommendation to the Board of Directors on the approval of the annual consolidated financial statements, annual report and the re-appointment of the independent auditors. The Audit Committee also reviews the annual Management's Discussion & Analysis the interim consolidated financial statements and interim Management's Discussion & Analysis.

ALBERT D. COHEN
President, Chief Executive Officer
& Chairman of the Board of Directors

ERNEST B. REINFORT
Vice-President, Finance
& Comptroller

April 14, 2005

AUDITORS' REPORT TO SHAREHOLDERS

We have audited the consolidated balance sheets of Gendis Inc. as at January 29, 2005 and January 31, 2004, and the consolidated statements of loss, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at January 29, 2005 and January 31, 2004, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Winnipeg, Manitoba
April 14, 2005

PricewaterhouseCoopers LLP
Chartered Accountants

GENDIS INC.
CONSOLIDATED BALANCE SHEETS AS AT JANUARY 29, 2005 AND JANUARY 31, 2004
(thousands of dollars)

	2005	2004
	$	$
ASSETS		
CURRENT ASSETS		
Cash and equivalents	3,235	4,632
Receivables	530	954
Advance held in escrow (note 10)	2,000	—
Prepaid expenses	109	240
Discontinued operations – retail segment (note 3)	—	57,422
	5,874	63,248
INVESTMENTS (note 4)	18,844	16,123
DEPOSIT ON INCOME TAX REASSESSMENT (note 9)	28,361	28,361
PROPERTY AND EQUIPMENT (note 5)	11,431	12,550
FUTURE TAX ASSET (note 9)	1,200	—
DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS (note 3)		
Real estate held for sale	—	6,038
Retail segment	—	29,867
	65,710	156,187
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	1,113	1,031
Income and capital taxes payable	106	160
Discontinued operations – retail segment	—	19,760
	1,219	20,951
DISCONTINUED OPERATIONS - retail segment (note 3)	—	25,853
	1,219	46,804
COMMITMENTS AND CONTINGENCIES (note 10)		
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 8)	16,100	16,100
RETAINED EARNINGS	48,391	93,283
	64,491	109,383
	65,710	156,187

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS

Albert D. Cohen
Director

James E. Cohen
Director

GENDIS INC.
CONSOLIDATED STATEMENTS OF LOSS
FOR THE YEARS ENDED JANUARY 29, 2005 AND JANUARY 31, 2004

(thousands of dollars, except per share data)	2005 $	2004 $
REVENUE		
Investment income (note 4)	1,629	1,734
Real estate rental	352	222
	1,981	1,956
EXPENSES		
Property and administrative expenses	2,416	2,260
Amortization of property & equipment	352	381
Interest and other finance expense	214	12
	2,982	2,653
LOSS BEFORE THE UNDERNOTED	(1,001)	(696)
Restructuring credits (note 10)	761	321
Gain on sale of real estate properties	—	467
Impairment of real estate properties (note 5)	(767)	—
Finance cost (note 7)	—	(2,900)
LOSS BEFORE INCOME TAXES	(1,007)	(2,807)
INCOME TAX (PROVISION) RECOVERY (note 9)		
Future tax	366	69
Current tax	(24)	(25)
Income tax (provision) recovery	342	44
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS	(665)	(2,763)
Disposal of long-lived assets and discontinued operations (note 3):		
Earnings on operations of real estate held for sale	116	125
Gain on sale of real estate held for sale	6,679	—
Loss on operations of the Retail segment held for sale	(16,546)	(6,379)
Loss on disposal of Retail segment	(34,476)	—
LOSS FOR THE YEAR	(44,892)	(9,017)
EARNINGS (LOSS) PER SHARE – Basic and Diluted		
Continuing operations	(0.04)	(0.18)
Disposal of long-lived assets and discontinued operations		
Real estate held for sale	0.44	0.01
Retail segment	(3.33)	(0.42)
	(2.93)	(0.59)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED JANUARY 29, 2005 and January 31, 2004
(thousands of dollars)

RETAINED EARNINGS – beginning of year	93,878	103,220
Effect of change in accounting for consideration received from vendors (note 2)	(595)	(722)
RETAINED EARNINGS – beginning of year – restated	93,283	102,498
Loss for the year	(44,892)	(9,017)
Premium on shares purchased for cancellation (note 8)	—	(198)
RETAINED EARNINGS – end of year	48,391	93,283

GENDIS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JANUARY 29, 2005 AND JANUARY 31, 2004
(thousands of dollars)

	2005 $	2004 $
CHANGES IN CASH POSITION		
By operations		
Loss from continuing operations for the year	(665)	(2,763)
Items not affecting cash:		
Amortization of property & equipment	352	381
Gain on sale of property & equipment	—	(467)
Impairment of real estate properties	767	—
Future income taxes	(366)	—
Restructuring credits	(130)	—
Cash flow from earnings	(42)	(2,849)
Net decrease (increase) in non cash working capital	(1,028)	(605)
Cash flow by operating activities from:		
Continuing operations	(1,070)	(3,454)
Disposal of long-lived assets and discontinued operations		
Real estate held for sale	1,656	278
Retail segment	(13,013)	10,935
	(12,427)	7,759
By investing activities		
Investments acquired	(3,081)	(1,934)
Excess of distributions over investment income	361	—
Proceeds from sale of property & equipment	—	1,454
Expenditures for property & equipment	—	(1,067)
Cash flow by investing activities from:		
Continuing operations	(2,720)	(1,547)
Disposal of long-lived assets and discontinued operations		
Real estate held for sale	14,032	(2,415)
Retail segment	(5,941)	(9,213)
	5,371	(13,175)
By financing activities		
Shares purchased for cancellation	—	(377)
Cash flow by financing activities from:		
Continuing operations	—	(377)
Discontinued operations - Retail segment	5,320	1,889
	5,320	1,512
DECREASE IN CASH	(1,736)	(3,904)
NET CASH – beginning of year	4,971	8,875
NET CASH – end of year	3,235	4,971
Net cash is represented by:		
Continuing operations	3,235	4,632
Discontinued operations	—	339
	3,235	4,971

1. NATURE OF OPERATION

The Corporation invests in marketable securities and operates commercial real estate properties. Until its sale on December 16, 2004, the Corporation also operated a Retail segment of junior department and family clothing stores across Canada in the retail merchandising industry. Its retail outlets had a broad geographic base and operated under the names SAAN and Red Apple Clearance Centre.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. The fiscal year represents the fifty-two week period from February 1, 2004 to January 29, 2005. Comparative figures are for the fifty-three week period from January 26, 2003 to January 31, 2004. The fiscal year ends on the last Saturday in January of a year.

(b) Change in accounting policy

During the year ended January 29, 2005, the Corporation adopted the guidance of the Emerging Issues Committee Abstract 144 of the Canadian Institute of Chartered Accountants on the accounting for certain consideration received from a vendor. The guidance requires that such amounts be treated as a reduction to the cost of inventory unless the consideration is a reimbursement of another cost. The Retail segment of the Corporation had been recording these amounts as income upon receipt rather than as a reduction to the cost of inventory. The adoption was applied retroactively. In the year ended January 29, 2005, the change resulted in an increase in the loss on operations of the Retail segment held for sale of $280,000, net of tax of nil (2004 - $123,000, net of tax of nil) and a charge to retained earnings at January 31, 2004 of $595,000 net of tax of nil (2003 - $722,000, net of tax of nil).

(c) Principles of consolidation

The consolidated financial statements include the accounts of the Corporation, Gendis Realty Inc., a wholly owned subsidiary, and Saan Stores Ltd., a former subsidiary until the sale date.

(d) Disposal of long-lived assets and discontinued operations

Long-lived assets are classified as held for sale when specific criteria under Canadian Institute of Chartered Accountants Handbook Section 3475 are met. Assets held for sale are measured at the lower of their carrying amounts and fair values less disposal costs and are no longer amortized. Assets and liabilities classified as held for sale are reported separately on the balance sheet. A component of the Corporation that is held for sale is reported as discontinued operations if the operations and cash flows of the component will be eliminated from the ongoing operations as a result of the disposal transaction, and the Corporation will not have a continuing involvement in the operations of the component after the disposal transaction.

After the disposal of the Retail segment and the parcel of real estate properties, the Corporation expects to have a significant continuing operation, albeit on a dramatically reduced scale. The Corporation expects to earn revenue from the leasing of nine owned real estate properties, including the potential re-development of some of the Corporation's present real estate. The Corporation also expects to continue to earn investment income.

(e) Earnings per share

Basic earnings per share are calculated using the daily weighted average number of shares outstanding during the respective fiscal years.

Diluted earnings per share is calculated using the daily weighted average number of shares that would have been outstanding during the year had all potential common shares been issued at the beginning of the year or when the underlying option was granted, if later.

(f) Measurement uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires the Corporation to make estimates and assumptions that affect reported amounts of assets and liabilities, revenue and expenses, and the disclosure of contingencies. Future events could alter such estimates in the near future.

The Corporation operated in highly competitive markets. The Corporation has estimated the useful lives of property and equipment and the recoverable value of inventories and property and equipment based on historical customer patterns, industry trends and existing competitive factors. Significant changes in these factors could result in material impairment in the reported amounts for these assets.

(g) Cash and equivalents

Cash includes commercial paper investments with maturities of less than three months and other highly marketable investments.

(h) Investments

Portfolio investments are carried at the lower of carrying value or market value when the decline in market value to below cost is considered to be other than temporary. The investment income and the carrying value of the investment in Fort Chicago Energy Partners L.P. are increased by the Corporation's share of earnings of the investment. Cash distributions received from the investment reduces the carrying value of the investment. Investment income and the carrying value of the investment are also affected by the non-proportionate participation by the Corporation in the investment's capital transactions.

(i) Property and equipment and amortization

Property and equipment are recorded at the lower of cost less accumulated amortization and net recoverable amount. A write-down to an estimated net recoverable amount is at management's best estimate considering the most probable set of economic conditions anticipated to prevail in the market.

Amortization is provided on a straight-line basis over the estimated useful life at the following annual rates:

Buildings	3%
Furniture, fixtures and equipment:	
Office	7%
Computer:	
Equipment	25%
Software	50%

(j) Pension plans

The Corporation maintains an employee contributory defined benefit pension plan and a defined contribution pension plan. All employees who meet certain eligibility requirements must participate in one of the plans.

For the defined benefit plan, the cost of pensions is determined using the projected benefit method pro rated on service, market interest rates and management's best estimates on expected plan investment

performance, salary escalation and retirement ages of plan members. A modified market method is used to value plan assets for the purposes of calculating the expected return on plan assets. Under this method, the quoted market value is the underlying basis, but unrealized gains and losses are averaged over a five year period. Cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation or modified market value of the plan are amortized over the estimated service life of the members of the plan.

For the defined contribution plan, the cost of pensions is the Corporation's contribution to the plan.

(k) Financial instruments

The carrying value of receivables, accounts payable and accrued liabilities approximate fair values due to their short-term maturity.

The Corporation is exposed to a credit risk from loans advanced to debtors and from repudiation of commitments from sub-lessees under sub-leases.

The Corporation is exposed to market risk on its investments in Fort Chicago Energy Partners L.P. and Opti Canada Inc. The security of the investments trade on a public stock exchange and, accordingly, the Corporation is subject to quoted market price volatility.

(l) Future income taxes

The Corporation utilizes the liability method of accounting for income taxes under which future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Future income tax assets and liabilities are measured using substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. Future income tax assets are recognized to the extent that realization is considered more likely than not.

(m) Revenue recognition

Rental revenue includes base rent, percentage participating rents and recoveries of operating expenses, including property taxes. Percentage participating rents are recognized when specified sales targets have been met.

3. DISPOSAL OF LONG LIVED ASSETS AND DISCONTINUED OPERATIONS

(a) Following periods of poor financial performance from competition increasingly encroaching on the Retail segment's traditional markets and following the lack of success from initiatives to regain market share, the Corporation decided to initiate the solicitation of offers from prospective purchasers for its Retail segment while assessing a retail consultant's independent assessment of the strategic initiatives of its Retail segment and the costs and resources required to return the business to profitability. The Corporation concluded that it was not in the best interest of its shareholders to commit additional financial and other resources beyond the $10-million advanced to counter the significant deterioration of cash flows from the operations of the Retail segment. Accordingly, the Corporation decided to sell the Retail segment, with a purchaser assuming the responsibility of sponsoring the Corporation's Defined Benefit Pension Plan. The Corporation commenced negotiating with several prospective purchasers and closed the sale transaction for the Retail segment along with the transfer of the sponsorship of the Pension Plan on December 16, 2004.

Information on the Corporation's discontinued Retail segment and accrued pension asset is as follows:

The loss on disposal of the Retail segment was determined as follows:	2005 ($000's)	2004 ($000's)
Assets		
Cash	—	339
Inventory, receivables and other current assets	67,064	55,736
Property and equipment	22,414	25,517
Accrued pension asset	4,350	4,350
	93,828	85,942
Liabilities		
Payables and other current liabilities	27,949	18,413
Congress credit facility debt	30,328	23,652
Capital lease obligations – long-term	1,374	2,201
	59,651	44,266
Net assets, at carrying value	34,177	41,676
Proceeds	(375)	
Transaction costs	2,936	
Loss on disposal before income taxes	36,738	
Recovery of future income tax	2,262	
Loss on disposal	34,476	

The results of operations of the Retail segment for the period to the sale date is as follows:	2005 ($000's)	2004 ($000's)
Revenue	243,824	311,098
Costs and expenses:		
Cost of goods sold, selling, general & administrative expense	253,046	308,282
Amortization of property & equipment	5,718	7,165
Interest and finance costs	1,541	2,000
	260,305	317,447
Loss before income tax	16,481	6,349
Provision for income taxes	65	30
Loss for the period	16,546	6,379

(b) The Corporation designated a parcel of five of its real estate properties comprising a city block in downtown Winnipeg, Manitoba to be a disposal group held for sale. The sale transaction closed in the fourth quarter of the year. Transaction costs were incurred to compensate tenants for lease termination and relocation costs, legal fees, and the cost of securing additional property, including municipal back lanes to complete the site to the purchaser's specifications.

The gain on disposal of the Real Estate held for sale was determined as follows:

	($000's)
Proceeds	16,000
Transaction costs	1,968
Net proceeds	14,032
Carrying value of the properties	5,985
Gain before income tax	8,047
Provision for future income tax	1,368
Net gain after tax	6,679

The results of operation of the Corporation's real estate assets held for sale are as follows:	2005 ($000's)	2004 ($000's)
Revenue	393	553
Expenses:		
Property and administrative expense	165	282
Amortization of property	52	77
	217	359
Earnings before income tax	176	194
Provision for future income tax	60	69
Earnings after income tax	116	125

4. INVESTMENTS

(a)

Investments are comprised of the following:	Number Of shares/units (000's)		Market Value ($000's)		Carrying Value ($000's)	
	2005	2004	2005	2004	2005	2004
Fort Chicago Energy Partners L.P.	2,383	2,175	28,119	22,712	17,891	16,123
Opti Canada Inc.	50	—	1,002	—	953	—
			29,121	22,712	18,844	16,123

(b)

Investment income represents:	2005 ($000's)	2004 ($000's)
Interest income	44	189
Investment income from Fort Chicago Energy Partners L.P.	1,585	1,545
	1,629	1,734

5. PROPERTY AND EQUIPMENT

	Cost		Accumulated amortization		Net	
	2005 ($000's)	2004 ($000's)	2005 ($000's)	2004 ($000's)	2005 ($000's)	2004 ($000's)
Land	2,367	2,539	—	—	2,367	2,539
Buildings	16,472	16,472	7,459	6,524	9,013	9,948
Furniture, fixtures and Equipment	607	607	556	544	51	63
	19,446	19,618	8,015	7,068	11,431	12,550

During the year ended January 29, 2005, the carrying value of certain land and buildings were written down by $767,000 as a consequence of rents, recoverable occupancy costs and renewal terms being renegotiated with the tenant. This resulted in a carrying value for the properties in excess of undiscounted cash flows expected to be received. The properties were written down to a fair market value based on the greater of applying a capitalization rate to the expected annual cash flow from the properties and the expected sale value, net of selling costs, if the property were vacant. The capitalization rate selected was typical for properties of a similar type and location.

6. ACCRUED PENSION ASSET

The sponsorship of the Corporation's defined benefit pension plan ('Old Plan') was assumed by the Retail segment upon the sale of the Retail segment. The Corporation is obligated to create and sponsor a separate defined benefit pension plan ('New Plan') for employees of Gendis Inc. and its retirees. Entitlements of employees of the Retail segment and of retirees of all former subsidiaries of the Corporation will remain with the Old Plan. An actuarial valuation has determined that $1,550,000 of pension benefit obligations and $1,750,000 in related assets are to be transferred from the Old Plan to the New Plan. Information on the Old Plan, measured at December 31, 2004 and December 31, 2003, is as follows:

(a) Pension Plan Net Assets

	2004 ($000's)	2003 ($000's)
Quoted market value – beginning of year	55,359	55,249
Investment income	3,667	3,802
Employee contributions	1,053	949
Benefits, refund of contributions and administrative expenses	(5,065)	(4,641)
Market related value – end of year	55,014	55,359
Quoted market value – end of year	57,661	56,062

The market related value of the pension plan net assets is based on quoted market values with unrealized gains and losses averaged over a five year period.

Investment Categories of Pension Plan Assets	2004	2003
Cash and other net assets	5%	6%
Debt securities	23%	25%
Equity securities	72%	69%

Included in equity securities is an investment of 517,100 (2003 – 517,100) common shares of the Corporation with a fair market value of $1,215,000 (2004 - $1,386,000).

(b) Pension Plan Benefit Obligations

	2004 ($000's)	2003 ($000's)
Accrued benefit obligation – beginning of year	48,940	48,170
Accrued interest on benefits	3,138	3,057
Accrued benefits	1,866	2,235
Benefits and refund of contributions	(4,981)	(4,509)
Experience loss	1,192	(13)
Accrued benefit obligation – end of year	50,155	48,940

The most recent actuarial valuation of accumulated pension benefits of the Old Plan was made as at September 30, 2004.

(c) Significant actuarial assumptions in measuring the Corporation's accrued benefit obligations	2004	2003
Discount rate	6.50%	6.50%
Expected long-term rate of return on pension plan assets	6.50%	6.50%
Rate of compensation increase	2.35%	2.35%

(d) The Corporation's Accrued Pension Asset

	2004 ($000's)	2003 ($000's)
Pension Plan surplus at market related values	4,859	6,419
Valuation allowance	(509)	(2,069)
Accrued pension asset	4,350	4,350
Amount included in discontinued operations	4,350	4,350
	—	—

The valuation allowance represents the amount of surplus not recognized on the Corporation's balance sheet before the assumption the sponsorship of the pension plan by the Retail segment.

(e) Calculation of the Corporation's Pension Expense

	2004 ($000's)	2003 ($000's)
Accrued benefits	1,866	2,235
Employee contributions	(1,053)	(949)
Accrued interest on benefits	3,138	3,057
Investment income – market related value	(3,667)	(3,802)
Experience gains or losses and administrative expenses	1,276	119
Change in valuation allowance	(1,560)	(660)
Pension expense from the defined benefit pension plan	—	—
Pension expense from the defined contribution pension plan	26	64
Pension expense	26	64

7. FINANCE COST

During the year ended January 31, 2004, the Corporation incurred a finance cost of $2.9-million in the settlement of an option held by a previous lender to the Corporation. The previous lender gave notice of its intent to exercise its option to acquire from the Corporation 1.0-million units of Fort Chicago Energy Partners L.P. at $6.00 per unit. The Corporation elected to retain the 1.0-million units and settled the option by paying the difference between the fair market value of the units and the option price.

8. CAPITAL STOCK

(a) Authorized

The Corporation is authorized to issue an unlimited number of common shares.

(b) Common shares issued

	Number of Shares		Share Capital	
	2005	2004	2005 ($000's)	2004 ($000's)
Beginning of year	15,316,045	15,486,423	16,100	16,279
Cancelled	—	(170,378)	—	(179)
End of year	15,316,045	15,316,045	16,100	16,100

During the year ended January 29, 2005, under Normal Course Issuer Bids, no (2004 - 170,378) common shares were purchased for cancellation at an average cost of nil (2004 - $2.21) per share. In 2004, the excess of the purchase price over the $1.05 per share assigned value of the shares was charged to retained earnings. The Normal Course Issuer Bid expired on December 17, 2004.

(c) Share option plans

The changes in the share options are as follows:	Number of Options 2005	2004	Weighted Average 2005	2004
			$	$
Beginning of year	18,000	21,000	13.73	13.77
Forfeited	(10,400)	—	(13.54)	—
Expired	—	(3,000)	—	(14.00)
End of year	7,600	18,000	14.00	13.73

Information on the share options outstanding and exercisable by price is as follows:

Exercise price	Number of Options 2005	2004	Weighted Average Contract Life (years) 2005	2004
$				
12.50	—	3,200	—	1.83
14.00	7,600	14,800	0.42	1.24
	7,600	18,000	0.42	1.34

The share options outstanding on January 29, 2005 expire on July 3, 2005.

(d) Loss per share

	2005 ($000's)	2004 ($000's)
Numerator – Net earnings (loss)		
Continuing operations	(665)	(2,763)
Long-lived assets held for sale – real estate	6,795	125
Discontinued operations – Retail segment	(51,022)	(6,379)
	(44,892)	(9,017)
Denominator – Weighted average number of shares outstanding		
Basic	15,316	15,363
Dilutive effect of stock options	—	—
Weighted average number of shares outstanding - diluted	15,316	15,363

9. INCOME TAXES

(a) Income taxes on earnings (losses) vary from the amounts that would be computed by applying the combined federal and provincial statutory income tax rates to the earnings (losses) before income tax. The following is a reconciliation of the combined statutory income tax to the effective income tax:

	2005 ($000's)	2004 ($000's)
Statutory income taxes at 34.0% (2004 – 35.8%)	(342)	(1,005)
Non deductible or taxable portion of capital gains or losses, investment income	(477)	(268)
Change in income tax rates	(34)	308
Large corporations tax	24	60
Limitation of deductible amounts	8	11
Change in valuation allowance and other items	479	850
Continuing operations - income tax provision (recovery)	(342)	(44)
Discontinued operations		
Real estate held for sale	1,428	69
Retail segment	(2,197)	30
	(1,111)	55

In 2005, the Change in valuation allowance and other items include a $600,000 charge related to the change in method of realizing tax benefits associated with temporary differences due to the disposition of the retail segment.

(b) At January 29, 2005, the Corporation has net capital losses of $2,957,000, $285,000 of which are subject certain restrictions, that may be applied to reduce taxable capital gains indefinitely in the future. The Corporation also has non capital losses of $8,388,000 that are subject to expiry as follows:

expiry date	Non capital loss ($000's)
2010	137
2011	2,932
2012	5,319

(c) Future income tax asset (liabilities) are comprised as follows:

	2005 ($000's)	2004 ($000's)
Non capital losses:		
Continuing operations	2,869	1,053
Discontinued operations	—	10,773
Capital losses	1,017	207
Property and equipment	(1,099)	(2,481)
Investments	(1,601)	(1,329)
Accrued pension asset	—	(1,500)
Capital lease obligations	—	1,338
Other items	265	306
	1,451	8,367
Valuation allowance	(251)	(8,367)
	1,200	—

(d) During the year ended January 26, 2002, the Corporation received notices of assessment levying additional income taxes and interest on the sale by the Corporation of shares of Sony of Canada Ltd. in 1995. The Corporation has filed a notice of objection with the Canada Revenue Agency, has made application to the Courts on certain jurisdictional matters and believes that it has substantial arguments to support its original filing position. On July 27, 2004, the Manitoba Court of Queen's Bench decided that the taxing authority had the power to issue a tax assessment concerning income tax on the transaction. The Corporation has appealed the decision to the Manitoba Court of Appeal. The Corporation has assessed the merits of its position in consultation with legal counsel and continues to believe that its position is strong in law.

The Corporation has paid the entire amount of the income taxes and interest in the amount of $28,361,000. Pending resolution of the appeal and Court proceedings, this amount is included as a recoverable item on the financial statements. If the Corporation is successful, this amount plus additional interest will be refunded. An unfavourable ruling once appeals have been exhausted would result in a charge to earnings of $28,361,000 in a future period.

10. COMMITMENTS AND CONTINGENCIES

(a) At January 29, 2005, there are 6 (2004 - 14) locations where the Corporation has the primary obligation under a property lease, with a former subsidiary corporation being a sub-tenant of the Corporation. The Corporation has not accrued an amount for future lease costs as the Corporation expects to derive future benefits from these leases should the sub-lessor repudiate their commitments. Minimum annual rentals (exclusive of additional amounts based on percentage of sales, but inclusive of taxes, insurance and other occupancy charges) on long-term operating property leases, the longest of which will expire in the year 2010 are detailed below.

During the year ended January 29, 2005, rent paid on automotive leases and donation commitments amounted to $49,000 (2004 - $49,000). Minimum annual rentals in future years on long-term automotive operating leases, office equipment operating leases and on donation commitments, the longest of which expires in the year 2008 are detailed below.

As a condition of the sale agreement of its Retail segment, the Corporation has agreed to fund life insurance premiums for a $5,000 per person policy for certain retired employees of the Corporation and its former subsidiaries. The purchaser of the Retail segment has agreed to permit the Corporation to participate in the Retail segment's group life insurance policy. The Corporation has recorded a $50,000 liability in accounts payable and accrued liabilities. The commitment to fund the annual premiums would cease if the group life insurance policy is terminated. Minimum annual premiums are detailed below.

Year ending January	Property Leases ($000's)	Other Leases & Commitments ($000's)	Life Insurance ($000's)
2006	1,517	51	5
2007	925	10	5
2008	607	3	5
2009	154	—	5
2010	154	—	5
thereafter	—	—	43
Total future minimum payments			68
Less imputed interest at 4.7%			18
Present value of minimum payments			50

(b) The restructuring credits represent recoveries from the Trustee of the Estate of Greenberg Stores Limited, a reduction to the provision for expenses and settlements with landlords on lease terminations.

(c) The current assets of the Corporation include a $2-million deposit held in escrow. The Corporation has agreed to advance $2-million, on a secured basis, to a former subsidiary, Saan Stores Ltd. at any time after April 1, 2005. The advance is subject to the borrower not being subject to any Companies' Creditors Arrangement Act stay of proceedings. Also, the borrower must provide evidence of solvency. The loan, if advanced, would be repayable $50,000 per month, principal and interest, commencing three months after the initial advance. In addition to the monthly payment, repayment of $250,000 would be due on August 1st and $500,000 would be due on December 31st of each year, commencing August 31, 2005, subject to the approval of the borrower's asset-based lender. Any outstanding principal and interest would be fully repayable on March 1, 2008. Interest would be at the prime rate as established form time to time by the Royal Bank of Canada plus 1/2%.

(d) In connection with the disposition of assets, the Corporation has provided customary representations and warranties that range in duration. In addition, as is customary, the Corporation has agreed to indemnify the buyers of certain assets in respect of certain liabilities pertaining to events occurring prior to the respective sales relating to taxation, environmental, litigation and other matters. The Corporation is unable to estimate the maximum potential liability for these indemnifications as the underlying agreements often do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined.

(e) Subsequent to the Corporation selling its investment in Saan Stores Ltd. on December 16, 2004, Saan Stores Ltd. filed for creditor protection under the Companies' Creditor Arrangements Act and subsequent to that, obtained a stay of proceedings under the Bankruptcy and Insolvency Act. On March 17, 2005, a buying agent and importer to Saan Stores Ltd., filed a statement of claim for $18-million against the Corporation and certain of its officers and directors. The buying agent and importer alleges to have suffered damages by reason of wrongful and oppressive conduct. The supplier also alleges misrepresentation and breach of fiduciary duties.

The Corporation considers that the claim is without merit and accordingly, a provision for settlement has not been recorded. The Corporation is also involved in various other legal matters. The resolution of these other matters are not expected to have a material adverse effect on the Corporation's financial position, results of operations or cash flows.

(f) The Corporation has agreed to indemnify its current and former directors and officers to the extent permitted by law against any and all charges, costs, expenses amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which the directors and officers are sued as result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of such indemnification prevents the Corporation from making a reasonable estimate of the maximum potential amount it could be required to pay to counter parties. For claims for the period prior to January 31, 2005, the Corporation had $15-million in directors' and officers' liability insurance coverage. For claims for the period subsequent to January 31, 2005, the Corporation has $1-million in directors' and officers' liability insurance coverage.

11. SUPPLEMENTAL INFORMATION TO THE STATEMENT OF CASH FLOWS

	2005 ($000's)	2004 ($000's)
The following is supplemental information for continuing operations:		
Interest paid	215	2,953
Income taxes paid	34	117

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

The following analysis uses definitions contained in The Toronto Stock Exchange Report on Corporate Governance and is numbered in response to specific guidelines. This analysis was adopted by the Board of Directors.

1. The Board has the responsibility to direct the management of the business and affairs of the Corporation and towards that end has redefined the responsibilities of the established committees in order to improve corporate governance.

   (i) Management submits written strategic plans for the Corporation and its wholly-owned subsidiary to the Board for discussion. These plans are updated as required.

   (ii) The principal risks of the Corporation's business are outlined under the "Management Discussion and Analysis". The Board reviews these risks periodically upon the recommendation of the Audit Committee; sets policy for the management of these risks when appropriate; and receives reports from management on the manner by which the risks are being assessed and managed.

   (iii) On an annual basis, the Board appoints management for the ensuing year. Succession planning for the CEO position is ongoing and has been entrusted to the Human Resources and Compensation Committee. Management of Gendis Inc. advises that individuals are currently employed who possess the required skills and abilities to support, in detail, the broad responsibilities of management.

   (iv) Management has developed a formal Communications Policy which addresses the interests of the stakeholders of the Corporation, namely shareholders, employees, suppliers, customers, governments and the public. The Communications Policy has been approved by the Board.

   (v) The Audit Committee monitors the integrity of the Corporation's internal control and management information systems. The Audit Committee meets with the Vice-President, Finance and the shareholders' auditors twice a year to discuss and review such matters and report to the Board.

2. The Board consists of five members, three of whom are unrelated directors. An unrelated director as defined in the Corporate Governance Guidelines "is a director who is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholding. A related director is a director who is not an unrelated director." An inside director is an employee of the Corporation or of a subsidiary. The Board has resolved that its composition should include a majority of unrelated directors. The Corporation does not have a "significant shareholder", which is defined by the Corporate Governance Guidelines as "a shareholder with the ability to exercise a majority of the votes for the election of the Board of Directors."

3. The Board states that it is composed of a majority of unrelated directors. Mr. Albert D. Cohen and Mr. James E. Cohen, management directors, are related directors. Mr. James E. Cohen is the son of Mr. Albert D. Cohen. Messrs. Jerry L. Gray, Lawrence O. Pollard and Barry C. Steers are unrelated directors.

4. The Corporate Governance Committee, composed exclusively of three outside/unrelated directors is responsible for proposing to the full Board new nominees to the Board. The Corporate Governance Committee solicits the names of nominees from Board members and management of outside and unrelated individuals, with appropriate experience, prior to making a final recommendation. To date, the Corporation does not have a formal process for assessing directors on an ongoing basis because, considering the size of the Board and the involvement of Board members on committees, assessment is an ongoing process. The Corporate Governance Committee has been assigned responsibility for this process.

5. The Corporate Governance Committee has been assigned the responsibility for assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual directors. The Chairman of the Corporate Governance Committee will discuss with each member of the Board the following topics: effectiveness of the Board as a whole, the Committees of the Board and the contribution of individual directors and will report back to the Board on an annual basis. The Chairman of the Corporate Governance Committee will take into account factors such as attendance at Meetings, age, other interests and responsibilities.

6. The Corporation provides an orientation and education program for new recruits to the Board. New nominees meet with senior management on key business, financial, operational and legal issues.

7. The Corporate Governance Committee and the Board have reviewed the size of the Board and its composition and state that a Board of 5 directors facilitate effective decision-making at this point in the Corporation's history.

8. The Human Resources and Compensation Committee has retained a compensation consultant to provide surveys to determine the appropriateness and form of the compensation of directors.

9. The Audit Committee is composed of three outside/unrelated directors. The Corporate Governance Committee is composed of three outside/unrelated directors. The Human Resources and Compensation Committee is composed of three outside/unrelated directors.

10. The Corporate Governance Committee is responsible to the Board for monitoring the development of the Corporation's approach to governance issues and the Corporation's response to Toronto Stock Exchange Corporate Governance Guidelines.

11. The Board of Directors, together with the CEO, continues to develop position descriptions for the Board and for the CEO involving the definition of the limits to management's responsibilities. The Board has limited management's monetary authority to $3 million per transaction. The Board is developing the corporate objectives which the CEO is responsible for meeting, which will be based upon implementing and executing the strategic plan as approved by the Board of Directors. A written position description for each Board committee has been adopted by the Board. Position descriptions for Board members will be developed.

12. The Board of Directors has appropriate structures and procedures in place to ensure that the Board can function independently of management. The procedure is for the outside/unrelated directors to meet independently of management prior to each Board Meeting. The structure is a Corporate Governance Committee Meeting. A "lead director" has been appointed, namely the chair of the Corporate Governance Committee.

13. The Audit Committee is composed only of outside directors. The Board is satisfied that the terms of reference of the Audit Committee are specifically defined so as to provide appropriate guidance to Audit Committee members as to their duties. The Audit Committee has direct communication channels with the Vice-President, Finance and external auditors to discuss and review specific issues as appropriate. The Audit Committee duties include monitoring the integrity of the Corporation's internal control and management information systems through direct communication channels with the external auditors to discuss and review specific issues as appropriate.

14. The Board resolved that any committee of the Board or any individual director may, at the expense of the Corporation, and with the prior consent of the Corporate Governance Committee, engage an outside advisor. The Corporate Governance Committee would advise the Corporate Secretary to implement this procedure as required.

CORPORATE & SHAREHOLDER INFORMATION

GENDIS INC. BOARD OF DIRECTORS

Albert D. Cohen, O.C., LL.D
President, Chief Executive Officer and Chairman
Gendis Inc.

James E. Cohen
Executive Vice-President
Gendis Inc.

Jerry L. Gray, Ph.D
Dean Emeritus, I.H. Asper School of Business
University of Manitoba

Lawrence O. Pollard
Chairman
Pollard Banknote Limited

Barry C. Steers, LL.D
Corporate Director

GENDIS INC. CORPORATE OFFICERS

Albert D. Cohen, O.C., LL.D
President, Chief Executive Officer and Chairman

James E. Cohen
Executive Vice-President

N. Paul Cloutier
Vice-President, Secretary & General Counsel

Ernest B. Reinfort
Vice-President, Finance & Comptroller

Barry C. Steers
Assistant Secretary

Lawrence O. Pollard
Assistant Treasurer

SHAREHOLDER INFORMATION

Corporate Head Office
1370 Sony Place
Winnipeg, Manitoba
R3T 1N5

Registrar & Transfer Agent
CIBC Mellon Trust
Vancouver, Calgary, Winnipeg, Toronto, Montreal, Halifax
Web site: www.cibcmellon.com

Auditors
PricewaterhouseCoopers LLP
Suite 2300, Richardson Building
One Lombard Place
Winnipeg, Manitoba
R3B 0X6

Banker
The Bank of Nova Scotia

Exchange Listing
Toronto Stock Exchange
Common shares of the company trade under the symbol: GDS

Investor Relations
P.O. Box 9400
Winnipeg, Manitoba
R3C 3C3
E-mail: finance@gendis.ca
Web site: www.gendis.ca